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PATENT AND TRADEMARK OFFICE



APPLICANTS: Haber, Jeff
SERIAL NO.: 09/628,569
FILING DATE: July 31, 2000
TITLE: "Directing Internet Shopping Traffic and
Tracking Revenues Generated as a Result Thereof"
EXAMINER: Andrew J. Rudy
GROUP ART UNIT: 3627
ATTY. DKT. NO.: 04910

COMMISSIONER FOR PATENTS
P.O. BOX 1450
WASHINGTON, DC 22313-1450

DECLARATION UNDER 37 CFR 1.131

My name is Jeff Haber, and I am the inventor of the software and interactive interface featured and claimed in U.S. Patent Application No. 09/628,569. If called as a witness, I could and would competently testify to the following facts:

1. On or about July 1, 1998, I conceived of the idea of having an interactive, multimedia, internet entertainment site with e-commerce capability. My idea was to

provide a segment of video content in a first portion of a display, said segment of video having a number of products featured in the video content which a user may purchase;

simultaneously provide a still image in a second and separate portion of the display, which image corresponds with a frame in the segment of video content and

containing a number of user selectable areas, each user selectable area showing one of the products contained in the corresponding segment of video content and each user selectable area being anchored to a hyperlink, each hyperlink linking to an e-commerce website where specific information about the product resides and from which the product may be purchased;

receive a user's selection of one of the user selectable areas in the still image showing one of the products contained in the corresponding segment of video content;

using the hyperlink anchored to the user's selected area in order to directly access the e-commerce website and retrieve the specific information about the product contained in the corresponding segment of video content; and

simultaneously provide the specific information about the product to the user in a separate and third portion of said display.

2. I thereafter diligently set about coming up with an actual interactive prototype/working model of my invention.

3. The first step in reducing my invention to practice was to develop a segment of video content. Therefore, I set about writing a brief script and set forward to produce the segment of video content. I hired an actor, Kevin Hall, to appear in the video. A copy of the Work for Hire Agreement, dated September 13, 1998 is attached hereto as Exhibit A.

4. After completing development of the video segment, I disclosed the idea of my invention to Mr. David Katz at CBS on or about November 11, 1998, in order to ascertain whether they might be interested in establishing a joint venture/project. This disclosure was made under a Non-Disclosure Agreement, a copy of which is attached hereto as Exhibit B.

5. Mr. Katz was very interested in our invention but wanted to see a full working model before making any hard and fast commitment. Accordingly, I continued in working on fully reducing my invention to a working model.

6. In April 1999, when I had brought my invention as far as I could, given my technical abilities and outside financial constraints, I retained the services of a company called Medius Interactive in order to complete development of a fully operable and working interactive website/model. I provided direct supervision to Medius as to how the website should look and how the interactive features should operate. More particularly, I instructed Medius to develop an interactive website where:

a segment of video content would be provided in a first portion of a display, said segment of video having a number of products featured in the video content which a user may purchase;

a still image would be simultaneously provided in a second and separate portion of the display, said image corresponding with a frame in the segment of video content and containing a number of user selectable areas, each user selectable area showing one of the products contained in the corresponding segment of video content and each user selectable area being anchored to a hyperlink, with each hyperlink linking to an e-commerce website where specific information about the product resides and from which the product may be purchased;

I further instructed Medius that I wanted to be able to:

receive a user's selection of one of the user selectable areas in the still image showing one of the products contained in the corresponding segment of video content;

and then,

use the hyperlink anchored to the user's selected area in order to directly access the e-commerce website and retrieve the specific information about the product contained in the corresponding segment of video content; and

simultaneously provide the specific information about the product to the user in a separate and third portion of said display.

Medius was retained under a Non-Disclosure Agreement. A copy of the Non-Disclosure Agreement executed on behalf of Medius Interactive is attached hereto as Exhibit C.

7. By the end of June, 1999, I had a fully developed and working model of the interactive website designed by Medius Interactive. I paid fees in excess of THIRTY THREE THOUSAND DOLLARS (\$33,000) for these services. A copy of an invoice from Medius Interactive showing the amounts they charged to fully reduce my invention/idea to a working model is attached hereto as Exhibit D.

8. On or about August 12, 1999, we demonstrated an interactive, fully operable version of the invention to Richard Lack of NetGravity in London.

9. Shortly thereafter, sometime in November of 1999, I diligently sought and obtained corporate counsel and patent counsel representation through the law firm of Fenwick & West.

10. On or about December 16, 1999, I met with Dr. Mitchell Blutt, senior partner at Chase Capital Partners. I walked him through an interactive demo and explained the concept of my invention. Mr. Blutt indicated at that time that there were many companies in the Chase portfolio that could benefit from my invention/application. In particular, he indicated that I should contact Digital Entertainment Network, DEN.

11. DEN was an interactive, internet entertainment company founded by Marc Collins-Recter. The named inventor on U.S. Patent No. 6,188,398.

12. In March of 2000, I met with several executive board members of DEN, including Greg Carpenter, CTO and David Neuman, CEO. At that time, the company was plagued with controversy and was desperately seeking a way to generate revenue. They were all very excited about my new invention/application, including its ease of use. They indicated that they had seen nothing like it.

13. Unfortunately, due to bad press and a very stirring controversy, DEN became engulfed in a quagmire and lost all of its funding. DEN officially layed-off all remaining staff and closed its doors in May of 2000. Attached hereto as Exhibit E, is a copy of a news article which appeared in Los Angeles Times in May of 2000 detailing the fate of DEN.

14. By and through my counsel, the patent application for my invention was completed and filed in July of 2000.

The following facts are true and accurate and sworn to under penalty of perjury.

Date: 11-04-05



Jeff Haber

WORK FOR HIRE AGREEMENT

This Work for Hire Agreement (this "Agreement") is made effective as of September 13, 1998, by and between Jesco Pictures International, of 7266 Franklin Ave. #104, Hollywood, CA 90046, and Kevin Hall, of 403 N. Stanley Ave. #B, Los Angeles, CA 90036. In this Agreement, the party who is contracting to receive the services shall be referred to as "Company", and the party who will be providing the services shall be referred to as "Actor".

1. **DESCRIPTION OF SERVICES.** Beginning on September 13, 1998, Actor will provide the following services (collectively, the "Services"): Actor.

2. **PAYMENT FOR SERVICES.** Company will pay compensation to Actor for the Services based on \$0.00 per this agreement.

3. **RELATIONSHIP OF PARTIES.** It is understood by the parties that Actor is an independent contractor with respect to Company, and not an employee of Company. Company will not provide fringe benefits, including health insurance benefits, paid vacation, or any other employee benefit, for the benefit of Actor.

4. **WORK PRODUCT OWNERSHIP.** Any copyrightable works, ideas, discoveries, inventions, patents, products, or other information (collectively, the "Work Product") developed in whole or in part by Actor in connection with the Services shall be the exclusive property of Company. Upon request, Actor shall sign all documents necessary to confirm or perfect the exclusive ownership of Company to the Work Product.

5. **CONFIDENTIALITY.** Actor will not at any time or in any manner, either directly or indirectly, use for the personal benefit of Actor, or divulge, disclose, or communicate in any manner any information that is proprietary to Company. Actor will protect such information and treat it as strictly confidential. This provision shall continue to be effective after the termination of this Agreement. Upon termination of this Agreement, Actor will return to Company all records, notes, documentation and other items that were used, created, or controlled by Actor during the term of this Agreement.

6. **ENTIRE AGREEMENT.** This Agreement contains the entire agreement of the parties, and there are no other promises or conditions in any other agreement whether oral or written.

7. **SEVERABILITY.** If any provision of this Agreement shall be held to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable. If a court finds that any provision of this Agreement is invalid or unenforceable, but that by limiting such provision it would become valid and enforceable, then such provision shall be deemed to be written, construed, and enforced as so limited.

Initials: KH

Party contracting services:
Jesco Pictures International

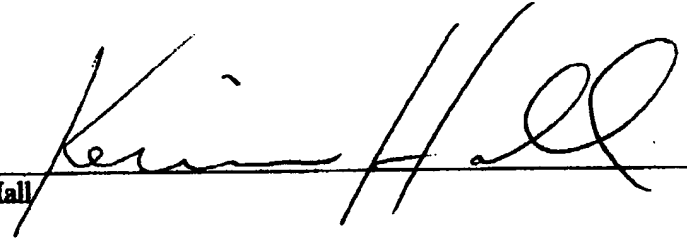
By:



Jeff Haber
President

Service Provider:
Kevin Hall

By:



Kevin Hall
Actor

CONFIDENTIALITY AND
NON-DISCLOSURE AGREEMENT

HollywoodReality LLC
7288 Franklin Ave. #104
Hollywood, CA 90048

Please Print

COMPANY (If Applicable) CBS

Name: Dan J. [Signature]

Title: VP Strategic Planning

Address: _____

City: _____

State: _____

Zip: _____

Phone: _____

Fax: _____

Email: DJL@CBS.COM

HollywoodReality LLC and/or its related companies (herein collectively referred to as "we" or "us") is considering contracting with your company to render services, and/or for other reasons and will be disclosing information of the nature described below to you, in connection with an entertainment development, HollywoodReality or other project being developed by us (herein collectively referred to as the "Project", which term shall also include any of the individual components of a Project).

We will be making available to you, or you will have access to, both orally and in writing, various descriptions and concepts intended to be incorporated into the Project. These descriptions and concepts may include the basic nature of the Project, concept plans of the Project, operational concepts, interactive technology, strategic planning and budget and schedule information.

All of the foregoing information, as well as other information we will be disclosing to you about the Project, is confidential and proprietary in nature. Such information has been gathered and developed by us at considerable cost and should not be made available to persons other than those specifically designated by us. In fact, such information could be of considerable value to our competitors, who could either utilize the information for their own projects or choose new elements to effectively compete against our Project. Further, even the mere fact that we are developing a Project or an element of a Project of the nature and general content that will be disclosed to you would be of potential value to our competitors who might select their own future projects or elements thereof with a view toward competing against our Project.

We therefore request, and you agree, that all information learned by you and, if applicable, all members of your staff, your subcontractors and your subcontractors' staff, relating to the Project, both detailed information and even the basic nature of the Project (where such is not publicly known), be kept strictly confidential. You agree to make no use nor authorize any use, for such information for any purpose whatsoever, whether for your own benefit or the benefit of others. You also agree to take appropriate measures, if applicable, with all members of your staff, your subcontractors, and your subcontractors' staff who will be exposed of have access to such information to insure that they are bound by this of a like agreement of non-disclosure (additional copies of this agreement can be made available upon request), and furnish proof to us, upon request, that those measures have been taken. No rights or licenses in connection with such information are granted by this agreement by implication or otherwise.

Any use of disclosure of information disclosed under this agreement without prior consent shall entitle us to injunctive relief restraining such unauthorized use or disclosure, together with damages, costs, and attorney's fees. Any modifications, adaptations, utilizations, designs or inventions based upon or arising from the information disclosed under this agreement which are made by you or, if applicable, you employees or subcontractors, either solely or jointly with our employees shall be and remain our sole property. You agree to return to us all copies of any material supplied to you under this agreement immediately upon our request, and you further agree that you shall not make nor authorize or permit to be made, any duplicate copies of any materials supplied by us without our express written permission. This agreement shall be construed in accordance with the laws of the State of California, excluding any laws regarding the conflict of choice of laws, and jurisdiction and venue for any disputes arising hereunder shall be in any court empowered to enforce this agreement in the State of California.

Your signature below will indicate your acceptance of the above, based upon which we will proceed to make such disclosures to you.

AGREED & ACCEPTED

Signed: [Signature]

Date: 4/1/94

Company: _____

FFP

CONFIDENTIALITY AND
NON-DISCLOSURE AGREEMENTHollywoodReality L.L.C.
7266 Franklin Ave. #104
Hollywood, CA 90046

Post-It® Fax Note 7671		Date: <u>4/22/99</u>
To: <u>Jeff Habon</u>	From: <u>MEDIUS</u>	
Co./Dept.	Co.	
Phone #	Phone #	
Fax # <u>723-824-8620</u>	Fax #	

Please Print

COMPANY (If Applicable)

MEDIUS InteractiveName: MARK WEBERTitle: PresidentAddress: 830 Fourth Ave S.City: SEATTLEState: WAZip: 98134Phone: 206-442-9099Fax: 206-442-9199Email: MWEBER@MEDIUS.NET

HollywoodReality and/or its related companies (herein collectively referred to as "we" or "us") are considering contracting with your company to render services, or for other reasons will be disclosing information of the nature described below to you, in connection with an entertainment development, HollywoodReality.com, or other project being developed by us (herein collectively referred to as the "Project", which term shall also include any of the individual components of a Project).

We will be making available to you, or you will have access to, both orally and in writing, various descriptions and concepts intended to be incorporated into the Project. These descriptions and concepts may include the basic nature of the Project, concept plans of the Project, operational concepts, interactive technology, strategic planning and budget and schedule information.

All of the foregoing information, as well as other information we will be disclosing to you about the Project, is confidential and proprietary in nature. Such information has been gathered and developed by us at considerable cost and should not be made available to persons other than those specifically designated by us. In fact, such information could be of considerable value to our competitors, who could either utilize the information for their own projects or choose new elements to effectively compete against our Project. Further, even the mere fact that we are developing a Project or an element of a Project of the nature and general content that will be disclosed to you, would be of potential value to our competitors who might select their own future projects or elements thereof with a view toward competing against our Project.

We therefore request, and you agree, that all information learned by you and, if applicable, all members of your staff, your subcontractors and your subcontractors' staff, relating to the Project, both detailed information and even the basic nature of the Project (where such is not publicly known), be kept strictly confidential. You agree to make no use, nor authorize any use, for such information for any purpose whatsoever, whether for your own benefit or the benefit of others. You also agree to take appropriate measures, if applicable, with all members of your staff, your subcontractors, and your subcontractors' staff who will be exposed or have access to such information to insure that they are bound by this or a like agreement of non-disclosure (additional copies of this agreement can be made available upon request), and furnish proof to us, upon request, that those measures have been taken. No rights or licenses in connection with such information are granted by this agreement by implication or otherwise.

Any use or disclosure of information disclosed under this agreement without prior written consent shall entitle us to injunctive relief restraining such unauthorized use or disclosure, together with damages, costs, and attorney's fees. Any modifications, adaptations, utilizations, designs or inventions based upon or arising from the information disclosed under this agreement which are made by you or, if applicable, your employees or subcontractors, either solely or jointly with our employees shall be and remain our sole property. You agree to return to us all copies of any material supplied to you under this agreement immediately upon request, and you further agree that you shall not make nor authorize or permit to be made, any duplicate copies of any materials supplied by us without our express written permission. This agreement shall be construed in accordance with the laws of the State of California, excluding any laws regarding the conflict or choice of laws, and jurisdiction and venue for any disputes arising hereunder shall be in any court empowered to enforce this agreement in the State of California.

Your signature below will indicate your acceptance of the above, based upon which we will proceed to make such disclosures to you.

AGREED & ACCEPTED

Signed: [Signature]Date: April 23, 1999Company: MEDIUS Interactive

Invoice

Medius Interactive, Inc.
1216 Pine Street, Ste 200
Seattle, WA 98101
USA

Invoice Number:
1077

Invoice Date:
Jun 30, 1999

Voice: 206-442-9099
Fax: 206-442-9199

Page:
1

Sold To: HollywoodReality LLC
7256 Feranklin Ave. #104
Hollywood, CA 90046

Customer ID: HOLLYWOOD

Customer PO	Payment Terms	Due Date	Sales Rep ID
	Net 10 Days	7/10/99	

Quantity	Item	Description	Unit Price	Extension
228.83	HOURS	Prototype and Splash	145.00	33,180.35
<i>Mark asked that I send you this so you know where we are</i>				

Check No:

Subtotal	33,180.35
Sales Tax	
Total Invoice Amount	33,180.35
Payment Received	0.00
TOTAL	33,180.35

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SUNDAY REPORT

May 7, 2000

How a Visionary Venture on the Web Unraveled

* Start-up firm's white-hot bid to redefine entertainment turned into a cautionary tale amid financial excesses and a sexual abuse lawsuit. Site relaunch is planned.

Home Edition, Part A, Page A-1

By JOSEPH MENN and GREG MILLER, TIMES STAFF WRITERS

"The boob tube zombie television is dead. . . . Global entertainment will be delivered over the Internet. . . . Digital Entertainment Network will create the last network."

These were the visions of a Santa Monica company known as DEN, spelled out in a fiery 38-page manifesto written two years ago by its founder. And for a while, the venture was white-hot, pioneering the fusion of Hollywood and the Silicon Valley.

Executives from Disney and other major companies flocked to join the company. Digital Entertainment Network hired Hollywood directors and actors to create original programs for its Web site. Advertisers including Ford and Pepsi eagerly plastered their logos on the DEN.net home page, and industry giants such as Microsoft invested millions of dollars.

But after two years of trying to build an audience for TV-style entertainment over the Internet, DEN has yet to produce a program as compelling as the unraveling of the company itself.

Beset by business blunders and allegations of sexual misconduct against its founder, the company squandered an opportunity to define the intersection of California's two premier industries. Instead, as a rival executive said in a recent interview, "they have become poster boys for what not to do."

The founder, Marc Collins-Rector, was forced to leave the company after a lawsuit accused him of molesting a teenage boy, a charge he denies. A planned stock offering that could have netted him and his executives hundreds of millions of dollars was abandoned. More than a third of the company's 300 employees were recently laid off and sources say the company is scrambling to find new financing.

Production of shows has been halted, and the vast audience that DEN's founders promised is now so tiny it doesn't even register with top Internet ratings services.

The implosion raises questions about how carefully some of the most powerful backers of the Internet economy scrutinize the companies they support. Most seemed oblivious to flaws in the Digital Entertainment business model and the exorbitant salaries its executives were paying themselves. Investors also knew little about Collins-Rector, the entertainment novice they entrusted with their money.

"It is one of the leading cautionary tales that come up in Internet conversations," said an executive at another online entertainment company. "It comes up in terms of overpaying executives, oversetting expectations, burning too bright too soon."

Ken Andersen, managing editor of the VentureWire electronic newsletter in New York, added: DEN shows that "anybody can raise a million dollars in dumb money."

Collins-Rector declined to be interviewed. His attorney, Ronald Palmieri, denied that his client has done anything wrong.

Hoping to salvage some of the company's promise, a revamped executive team, led by former Capitol Records President Gary Gersh and former Microsoft executive Greg Carpenter, is planning a relaunch of the site this month. They say the new DEN will be larger but leaner, still offering TV-style programs, but also music, news, chat and other content aimed at a college audience. They are also being careful to steer clear of their predecessors' bombast.

"DEN was slated to be big, to be huge, to take over," said Gersh, a company executive and director since last May. "We were going to change the world and we were going to get rich quick. All we're trying

to do now is tell people there's no substitute for rolling up your sleeves and going to work."

Saw Potential of New Technology

The convergence of entertainment and technology only now seems at hand, after years of false starts. In the early 1990s, Hollywood and high-tech firms lost millions on bets that viewers were ready to leave their television sets to click through interactive entertainment on CD-ROMs.

Later, as the Internet began to bloom, early episodic shows such as the online soap opera "The Spot" generated curiosity but not much revenue.

But what seemed farfetched after those failures now appears inevitable. Many teenagers now get the bulk of their music online, and many Hollywood and high-tech executives believe that consumers will soon get much, if not most, of their entertainment via the Net.

So far, only about 2% of U.S. households have the high-speed Internet connections necessary to stream video smoothly. And even then, the images appear in a box about the size of a postcard. But analysts expect those technological barriers to crumble over the next five years. Already, they estimate that 7 million college students have high-speed access in their dorms or elsewhere on campus, and 15 million adults have such access in the workplace.

Collins-Rector saw the potential of this booming technology earlier than most. He lined up major investors, grabbed key advertisers, and his company was the first entertainment site to file for an initial public stock offering, positioning executives for the kinds of Internet riches that Hollywood moguls have come to envy.

DEN had a full slate of MTV-style programming online before many of its rivals were even a flicker on someone's computer screen. Users who downloaded a small piece of software known as the Denabler could watch shows that were streamed over the Net, meaning they flowed across the computer network as tiny packets of data. The offerings included a series set in a fraternity house and a drama geared toward Christian teenagers.

Settling Sights on 'Generation Y'

Collins-Rector was the main creative force. A 40-year-old technology guru with no entertainment experience, his background was murky even to the top executives he hired. But he did have tens of millions of dollars and a certain amount of tech industry cachet from an earlier company he had founded called Concentric Research.

His two DEN co-founders were Chad Shackley, then 24, who had lived with Collins-Rector since dropping out of a Michigan high school, and Brock Pierce, then a 17-year-old actor best known for his leading roles in such Disney films as "The Mighty Ducks" and "First Kid."

All three lived in a 12,616-square-foot mansion in Encino, drove a Ferrari and a Lamborghini, wore Armani suits, took spur-of-the-moment vacations to the tropics and threw parties that attracted a young, hip crowd that also defined DEN's target audience.

In his manifesto, crafted to energize early employees, Collins-Rector set his sights on segments of so-called Generation Y that he said were being ignored by mainstream television and movies. He identified punk rockers, extreme skaters and "hip-hoppers," and put gay teenagers at the top of the list. The company would build a huge market by "globalcasting to a narrowcast audience," he vowed.

Work began in 1998 on its first show, "Chad's World." Produced by the teenage Pierce, the show centered on a 15-year-old from Michigan who questions his sexual orientation and ultimately flees his town's intolerance to move in with a gay couple in a California mansion.

For early financing, majority owner and chairman Collins-Rector turned to high-profile individuals he had come to know in Hollywood, including television actor Fred Savage. Former U.S. Rep. Michael Huffington said he invested \$5 million.

Huffington later complained that he was led to believe major companies were investing at the same time he was, and on the same terms--which wasn't true. He also said Collins-Rector traded on his name, describing Huffington as vice chairman although he held no such position.

Soon Collins-Rector was jetting across the country for meetings with much bigger players in the worlds of technology and venture capital.

He was smooth in pitch meetings, using a laptop computer to show investors how DEN would transform not only Internet entertainment, but also advertising and e-commerce. One CD-ROM demonstration showed how users would be able to stop a show in freeze frame, then click on an actor's shirt to buy one like it. The technology never appeared on the actual Web site, but investors were impressed nonetheless.

By June 1999, DEN had raised \$33.5 million from major backers of new ventures, including Cassandra Chase Entertainment Partners, Chase Capital Partners, Dell, Microsoft and Exodus Communications. The companies declined to discuss with The Times their decisions to invest in Digital Entertainment Network.

DEN's outside directors included Mitchell Blutt, executive partner of Chase Capital, the \$8-billion investment fund of Chase Manhattan Corp., and former A & M Records President Gilbert Friesen, president of the board of trustees of the Los Angeles Museum of Contemporary Art. They also declined to be interviewed.

Business associates and employees said they, like the financial backers, were drawn to Collins-Rector's creativity and confidence.

"The guy is smart, affable and had a vision," said current Digital Entertainment Network Chief Executive Carpenter. "A lot of his vision panned out."

Background a Mystery to Many

But even to Carpenter and others close to him, Collins-Rector's background was a blur. Dozens of employees, business associates and social acquaintances said they didn't know--or offered conflicting accounts of--where he had grown up, where he had gone to school, and what he had done before DEN.

Collins-Rector often claimed to be in his late 20s, and associates and employees said he gave the impression he had been a computer student at UCLA. But company filings show that he is 40, and officials at UCLA say there is no record that he was ever a student there. According to records in Los Angeles Superior Court, he changed his name in 1998 from Mark Rector to Marc Collins-Rector.

His early business partners describe him as smart and personable, but a man whose ideas were too far out in front of what was possible.

Nearly 20 years ago, he was the brains behind a short-lived telecommunications company in Florida called Telequest. Laura Brandeis, one of the original investors in the company, described Collins-Rector as "a genius" but also "too much into instant aggrandizement," once demanding that the fledgling company buy him a sports car.

In 1984, Collins-Rector and an Orange County businessman named Stephen Fryer founded an Irvine-based company called World TravelNet that electronically coordinated tours and cruises. Its affiliate, World ComNet, sold shares on the Vancouver stock exchange in 1987. The value of the company peaked at about \$100 million before it ran into sharp competition from the airline industry and eventually filed for bankruptcy.

"It was so close," Fryer said. "We just ran out of money."

In 1991, Collins-Rector rebounded by launching Concentric Research in Bay City, Mich. The company was like an early Internet service provider, enabling computer users to avoid long-distance charges when dialing into electronic bulletin boards.

The company's setup reflected Collins-Rector's ingenuity. Needing local telephone access numbers, but spurned by regional phone companies, he built a nationwide network by installing phone equipment in rented space in Payless Shoe Store locations around the country.

Concentric tapped a growing market. Bulletin boards, essentially pre-Web chat rooms, once numbered in the thousands, offering computer users the chance to find others with common interests, and to trade messages on almost any topic.

Collins-Rector had become a devotee of bulletin boards, which he apparently used to strike up relationships with at least two teenage boys, including his Concentric co-founder, Shackley, a high school student in Bay City. After meeting online, according to associates, their relationship flourished and Collins-Rector decided to base Concentric in Bay City and bring Shackley, then 16, into the company.

Shackley's parents, who declined to be interviewed, were initially supportive of their son's involvement with the business. Shackley's father, a real estate developer, even helped set up the company in one of his buildings, according to an account Collins-Rector posted on the company's Web site.

But according to a family friend, Shackley's parents were dismayed when their son informed them that he was dropping out of high school and leaving home to move in with Collins-Rector. The two have been professional and personal partners ever since, according to Collins-Rector's attorney, Palmieri.

Even so, Collins-Rector continued to spend time on bulletin boards, including one at which he met a 13-year-old boy from New Jersey. The boy, now 20, says that Collins-Rector, using the screen name "Cyberpoet," offered him part-time work handling customer complaints at Concentric and flew him to Michigan and California for meetings.

By 1995, Concentric was still relatively small, with 25 employees and \$1 million in revenue. But its rapid growth attracted attention from Silicon Valley. That year, Collins-Rector and Shackley sold control to a group that included the top-drawer venture capital firm of Kleiner Perkins Caufield & Byers.

The two men pocketed millions and kept some stock in the company. Renamed Concentric Networks, the firm went on to become even more valuable, and this year agreed to be acquired by Nextlink Communications for \$2.9 billion.

The windfall enabled Collins-Rector and Shackley to pursue a lavish new lifestyle. They bought an enormous RV and traveled the country scouting living locations, settling briefly in Beverly Hills before paying \$2.47 million in 1997 for a mansion in Encino.

They called it the "M & C Estate," for Marc and Chad. The 1 1/2-acre property, which includes a swimming pool, aquariums and a movie screening room, became a stage not only for elaborate parties, but for DEN. It was initially the base for the company and provided the filming location for a number of DEN shows, including "Chad's World."

High Salaries for Executives

The extravagance at the M & C Estate spilled over into the company, which burned through cash at a rate that was alarming even by Internet start-up standards.

Once it had secured cash from investors, Digital Entertainment set out to assemble a high-profile management team. But instead of tying compensation primarily to stock options--as most Internet companies do to control costs--DEN immediately offered high cash salaries and bonuses.

According to a company filing with the SEC last fall, David Neuman, recruited from Disney to become DEN's president, was paid an annual salary of \$1.5 million. Gersh and John Silva, music industry executives brought in to start a record label, were each paid \$600,000. The company's head of marketing was paid \$1 million and its chief financial officer \$400,000.

Even Brock Pierce, then 18, was paid \$250,000, more than most full-fledged Internet chief executives earn. Pierce and Shackley both took executive vice president titles.

The company was also spending heavily to build its roster of shows. DEN hired Randal Kleiser, who had directed such films as "Grease" and "The Blue Lagoon," to create a science fiction series called "The Royal Standard." Actress and author Carrie Fisher was hired to write an online advice column called "Denmother."

By last fall, DEN was in production on 13 shows and planning seven others.

All told, through the first six months of 1999, the company hadn't recorded a dime in revenue and reported a loss of \$20 million, including \$12 million in salaries and "programming costs." Losing money is hardly unusual for Internet start-ups. But while most spend the bulk of their money on marketing and script on salaries and content, DEN was doing the opposite.

"We were trying to bring in significant marketing and Hollywood-oriented talent," said James Ritts, who was DEN's chief executive through much of last year. "Investors came into the company knowing the salary structure and, at least at that time, found it reasonable."

But some employees said there was more focus on money than on the company's direction. "I went into DEN thinking this is going to be something great, it's going to change things," said one early hire, former production manager Jeff Moore.

Moore said top people spent a lot of time talking about how much money was being invested in the venture and how much they stood to benefit when the company offered stock for sale. "After a while, it seemed like the executives were only about, 'How can we make a buck?'"

Even Gersh, the new chairman, acknowledges there was an unhealthy preoccupation with the IPO. "Everybody was really focused on taking the company public," he said. "The day you go public [should] be the beginning of the game. It always seemed like the end of the game."

Some DEN employees also became concerned about what they saw as an uncomfortable overlap between Collins-Rector's personal life and the company he controlled.

Collins-Rector set up those closest to him with plush jobs at the company, and his justifications for the moves often seemed strained. He credited Pierce, for example, with coming up with a way to speed video transmission on the Net.

"Microsoft spent \$800 million trying to [solve the problem]," Collins-Rector wrote in his vision statement. "Brock looks at the problem and goes, 'Oh, it's simple.'"

According to several former DEN executives, the inspiration was simple indeed: It was to move the camera as little as possible, so computers would have fewer image changes to process. (Palmieri, the attorney for Collins-Rector, said Pierce's "contributions to the company were enormous. I have been in meetings with him, and he's contributed substantially.")

One former supervisor said Collins-Rector directed him to hire certain teenagers who weren't qualified for the jobs they sought. "He would come to me with ultimatums on who I should hire," said the former manager, who spoke on condition of anonymity. "Young hip kids were his thing."

Some workers said they felt compelled to do things well outside their job descriptions. One young employee said he was told that "if he valued his job" he would travel with Collins-Rector and his young executives, Shackley and Pierce, on a vacation to a tropical resort last spring.

The employee complained to his supervisor, who confirmed the account to The Times, but who said he didn't report the matter to top executives because they worked for Collins-Rector. The teenager said that he felt compelled to make the trip and that Shackley made a sexual pass at him. After he rejected the proposition, the teenager said, the trip ended early.

Attorney Calls Allegations False

Favored employees were also invited to parties at the Encino mansion, and several said they were encouraged to spend the night there.

Palmieri, also the attorney for the other two co-founders, said such allegations are false, and that "nothing was going on that was improper." Regarding the accusation that an employee was pressured to take a trip with the founders, Palmieri said Shackley denies the allegation and "has no idea what this could be referring to."

Palmieri also points out that no DEN employee has filed a suit or lodged a formal complaint within the company accusing DEN's founders of sexual harassment or any other misconduct.

Company executives, including Gersh, Carpenter and Neuman, as well as board members, said they were unaware of any improper behavior by Collins-Rector and regarded his personal life as beyond their scope of concern. "Who people date," said Marc Nathanson, a DEN director and former Falcon Cable chief executive, "is none of the board's business."

The board was soon forced to take notice.

Last September, the company filed documents with the Securities and Exchange Commission proposing to raise \$75 million in a public stock offering. But two days earlier, Collins-Rector was served with a lawsuit filed by the New Jersey boy he had hired as a 13-year-old customer service employee at Concentric in the early 1990s.

The suit, filed last May in U.S. District Court in Trenton, N.J., accused Collins-Rector of using his position of influence to sexually abuse the boy repeatedly from 1993 to 1996. In one instance, the suit alleged, the boy was flown to Bay City for a work assignment and invited to stay in Collins-Rector's home. That evening, according to the suit, Collins-Rector entered the boy's room and "moved his hand down [the boy's] chest, repeating the question, 'Do you trust me?' "

The suit alleged that sexual encounters continued after Collins-Rector had sold his controlling stake in Concentric, moved to California, and founded Digital Entertainment Network. The age of consent in California is 18.

At first, Collins-Rector denied the allegations and indicated he would fight the suit. That strategy collapsed after the emergence of a tape recording of a phone conversation between Collins-Rector and the boy, according to a source familiar with the case.

Palmieri denies the existence of any such tape. He said that in his first meeting with the boy's attorney, he demanded, " 'If there is a smoking gun, let me see it.' There was no such thing."

The FBI also began a criminal investigation, according to two sources with knowledge of the probe. The investigation is continuing, sources said, and the FBI refused to comment. Palmieri said that he is unaware of such an investigation, and that neither he nor his client has been approached by the FBI or any law enforcement agency.

Collins-Rector agreed in mid-October to settle the suit, paying the plaintiff, now 20, an undisclosed sum but admitting no guilt. Palmieri characterized the suit as "classic IPO blackmail," and said Collins-Rector agreed to settle only to minimize publicity and damage to DEN.

Collins-Rector's stake in the IPO "would have been worth hundreds of millions of dollars," Palmieri said. "Any business attorney or litigator would immediately consider giving a token payment [to the plaintiff] to save the company and his own investment."

After the settlement, Collins-Rector, Shackley and Pierce left the company. Palmieri said the three had been planning to leave for some time, eager to pursue new technology ventures. The suit was "a factor" in their decision to leave, Palmieri said, "but not the catalyst."

But Ritts, who replaced Collins-Rector as chairman, said the founder had been asked by the board to leave because, as he put it, "the allegations related to an area that was philosophically inconsistent with a company that was aimed at 14- to 24-year-olds."

Hopes Dashed for 1999 IPO

Inside DEN, the impact of the lawsuit was devastating. It dashed hopes for the public offering of stock and "stopped the company dead in its tracks," said one senior DEN employee. The allegations soured an atmosphere that had been "exciting and fun in which everybody felt lucky to be here," he said.

Current DEN executives said the suit caught them completely off-guard. Gersh said he never saw "anything that would lead me to believe [Collins-Rector] was propositioning anybody."

At a time when the stock market was minting millionaires at one dot-com after another, employees saw their prospects for IPO riches evaporating. DEN still had about \$18 million on hand as of last June 30, but the company was burning through more than \$3 million a month and had yet to report any revenue.

Meanwhile, other online entertainment sites were building larger audiences with leaner business models. Its momentum sapped, Digital Entertainment Network withdrew its IPO and undertook a major retrenchment in February. It also announced the resignation of Ritts, who acknowledged that he didn't act swiftly enough to pare DEN's costs.

Gersh, the onetime record executive, was named chairman. Carpenter was promoted from chief technology officer to chief executive. Investors, including Intel Corp. and Chase Capital Partners, contributed \$24 million in new funding.

Gersh fired more than 100 workers, closed one of DEN's offices in Santa Monica, and halted production of new shows. Gersh and Carpenter also capped executive salaries at \$200,000 per year, although Gersh said one "key" DEN employee continues to make about \$350,000 a year because of a contractual agreement.

Having cut the burn rate by more than half, Gersh and other executives began to rebuild the Web site around five "channels": music, sports, entertainment, previous shows and a college life category called "The Quad."

For "The Quad," DEN is soliciting drink recipes and spring break photos from students. For the sports channel, the site is filming 360-degree virtual tours of skateboard parks. And for the entertainment channel, DEN is relying on deals with other Web sites and production houses, instead of creating shows itself.

Carpenter said DEN expects to collect more than \$7 million this year in advertising revenue--excluding barter arrangements--from Pennzoil, Ford, Blockbuster, Microsoft, Dell and Pepsi. Still, its audience in March was too small to register with Media Metrix, meaning it had fewer than the minimum 250,000 visitors necessary to be tracked. By contrast, Shockwave.com, a popular source of games, animation and software for teenagers, attracted 4 million visitors.

Industry sources say DEN has been pursuing new financing and exploring a sale of the company to one of many emerging rivals, without any takers. But the mood at DEN seems to have recovered. On a recent weekday afternoon, DEN's cavernous brick headquarters hummed with the caffeinated energy of any Internet start-up. Employees scurried across the bare concrete floor and huddled over computer screens in the ongoing rush for the relaunch.

"The mood is hopeful now," said one DEN employee, who spoke on condition of anonymity. "I think we've been through a lot. We're all back in one building now, trying our best to make this work."

One of the few artifacts from the previous era is a defaced photo of Collins-Rector hanging in a computer room. Someone has scrawled a mustache across his face in black ink, and the words, "Our former fearless leader."

Collins-Rector's stake in DEN has dwindled to less than 20%, according to his attorney, and executives say he has no influence over management.

Collins-Rector, Shackley and Pierce recently returned to their Southern California mansion and incorporated a new company, World Wide Technology & Internet Ventures Ltd., in the British Virgin Islands.

Among the new names at the company is an 18-year-old ex-DEN actor, Alex Burton, who lives at the

mansion and is a childhood friend of Brock Pierce. Burton's mother, Elizabeth Anderson, recently contacted a Times reporter saying she was concerned about her son, and that he doesn't return her calls.

Reached by phone at the mansion, Burton said there was no reason for anyone to worry, but declined to speak further.

Palmieri, the attorney, said Collins-Rector had nothing to do with bringing Burton into the company. "It does sound like a pattern, but it's not Mr. Collins-Rector who has done this," Palmieri said. "For appearances only, I said, 'Why not have everyone leave?' and he said, 'Why should I change my life? I'm not doing anything wrong.' "

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Times staff writer Sallie Hofmeister and researchers John Jackson and Sheila A. Kern contributed to this story.

That's Inter-tainment

Digital Entertainment Network is among the entertainment sites are proliferating on the Net. Most target teen and young adult audiences. Below are some of the prominent players:

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Digital Entertainment Network Inc.

Site: Den.net

Content: Videos, music, news

HQ: Santa Monica

Founded: 1996

Key executives: Chairman Gary Gersh, Chief Executive Greg Carpenter

Target audience: Teens, young adults

Funding: More than \$60 million from investors including Microsoft Corp., Cassandra Chase Entertainment Partners and former U.S. Rep. Michael Huffington

Atomfilms.com

HQ: Seattle

Content: Short films, animations

Fact: Has rights to USC films, including early works by George Lucas

Entertaindom.com

HQ: Burbank

Content: Short videos, cartoons, music, news

Fact: Warner Bros.' online play

Ifilm.com

HQ: Los Angeles

Content: Short films, animations

Fact: Operates IfilmPro site for film professionals

Wirebreak.com

HQ: Venice, Calif.

Content: Videos, music, news, cartoons, games

Fact: CEO from Paramount Pictures

Shockwave.com

HQ: San Francisco

Content: Animated shorts, music, games

Fact: Has deals with director Tim Burton, creators of South Park

Pop.com*
HQ: Glendale
Content: Short videos, animations
Fact: Founders include Steven Spielberg

*has not officially launched

Source: Web sites; Times research

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